

Message Text

LIMITED OFFICIAL USE

PAGE 01 STATE 105919
ORIGIN SS-15

INFO OCT-01 EUR-12 ISO-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 EA-10 FRB-03 INR-10 IO-13 NEA-10
NSAE-00 OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01
AGRE-00 OMB-01 DODE-00 PM-05 H-01 L-03 PA-01
AF-10 ARA-10 NSCE-00 SSO-00 ICAE-00 INRE-00 OIC-02
XMB-02 DOE-15 SOE-02 ABF-01 /151 R

DRAFTED BY E: J WILSON: VS
APPROVED BY EUR/RPE: A C ALBRECHT
E: S BLACK
EB/IFD/OMA: J WINDER
EUR/CE: R CASAGRANDE
FRB: S BROWN
TREASURY: O MACKOUR
CEA: J SHAFER
DOC: J R WILSON (INFO)
-----053536 260133Z /17
O P 260015Z APR 78
FM SECSTATE WASHDC
TO AMEMBASSY PARIS IMMEDIATE
INFO AMEMBASSY BONN PRIORITY

LIMITED OFFICIAL USE STATE 105919

USOECD

E.O. 11652: N/A

TAGS: EGEN, GW, OECD

SUBJECT:EDRC REVIEW OF GERMANY, APRIL 26

REF: PARIS 12819

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 105919

1. USG AGENCIES HAVE REVIEWED GERMANY'S ANNUAL REVIEW
MEMORANDUM, SECRETARIAT'S DRAFT 1977-78 ECONOMIC AND
DEVELOPMENT REVIEW AND REF, AND ARE IN GENERAL AGREEMENT
WITH THE APPROACH OUTLINED IN MISSION COMMENTS. THE
FOLLOWING POINTS RAISED BY WASHINGTON DESKS MIGHT BE
CONSIDERED AS SUPPLEMENTARY MATERIAL. GERMAN VIEWS AND,
EVIDENTLY, THE SECRETARIAT'S ARE THAT "STRUCTURAL FACTORS"

ARE INCREASINGLY IMPORTANT IN GERMANY'S MEDIUM-TERM OUT-LOOK. THIS IS MOST APPARENT IN REFERENCE TO ALLEGED MISMATCHES IN THE LABOR MARKET AND, IN LIGHT OF EXCHANGE-RATE CHANGES, POSSIBLY ALSO WITH REGARD TO GERMANY'S BASIC INDUSTRIAL STRUCTURE. GERMAN REPRESENTATIVES MIGHT BE ENCOURAGED TO ELABORATE ON THEIR ASSESSMENT OF THIS STRUCTURAL PROBLEM. USG ANALYSTS, FRANKLY, REMAIN UNCONVINCED THAT STRUCTURAL DIMENSION OF EMPLOYMENT PROBLEM IS AS GREAT AS GERMANS PORTRAY.

2. WITH REFERENCE TO GOVERNMENT SPONSORED SAVINGS INCENTIVES, DATING FROM THE EARLY 1970S, GERMANS MIGHT BE

INVITED TO REVIEW THE CURRENT STATUS OF THESE PROGRAMS (WHICH WE UNDERSTAND HAVE BEEN CUT BACK IN THE PAST TWO YEARS), FUTURE SAVINGS ACCOUNT "DEBLOCKINGS," AND CURRENT ANALYSIS ABOUT THE WAY HOUSEHOLDS HAVE SPENT OR REINVESTED DEBLOCKED AMOUNTS IN THE PAST.

3. DOES FRG AGREE WITH THE ARGUMENTS ON EXCESS EX ANTE SAVINGS, IN LIGHT OF LOWER GROWTH OF POTENTIAL GNP EXPECTED OVER NEXT FEW YEARS? WHAT POLICIES ARE BEING CONSIDERED TO DEAL WITH IT?

4. FOR MONTHS GERMAN AUTHORITIES HAVE SAID THEY WOULD REVIEW THEIR ECONOMIC POLICIES IN THE SPRING. SPRING IS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 STATE 105919

HERE, AND WITH IT EVIDENCE OF A WEAK FIRST QUARTER AND, ON APRIL 24, A NEW SHEAF OF PESSIMISTIC PROGNOSSES FROM THE FIVE MAJOR ECONOMIC INSTITUTES. WHAT COMMENT MIGHT GERMAN REPRESENTATIVES AT THE EDRC HAVE ABOUT THE POSSIBILITY AND/OR LIKELY CHARACTER OF FUTURE POLICY INITIATIVES?

5. DOES THE FRG REGARD THE SHORT-TERM CAPITAL MOVEMENTS AS DE-STABILIZING? WHAT POLICIES COULD HELP TO AVOID SUCH MOVEMENTS, E.G. -- REVERSED INTERVENTION POLICY, CLOSER COOPERATION ON ECONOMIC POLICY WITH OTHER COUNTRIES, RESTRICTION ON CAPITAL FLOWS?

6. IN PARA 29 THE SECRETARIAT CASTS DOUBT ON REAL INTEREST RATE DECLINES IN GERMANY OVER THE PAST YEAR, CITING A "DECLINE IN SHORT-TERM INTEREST RATES ON BUSINESS LOANS" AS BEING LESS THAN THE SLOWDOWN IN PRODUCER PRICES. THE GERMANS ARE LIKELY TO TAKE A CONTRARY VIEW. INFLATION (CPI) FELL BY ABOUT 1/2 PERCENTAGE POINT BETWEEN 1976 AND 1977. BETWEEN THE SAME TWO YEARS AVERAGE BOND YIELDS DROPPED FROM 7.9 PER CENT TO 6.3 PER CENT, OR 1.6 PERCENTAGE POINTS. BETWEEN DECEMBER 1976 AND DECEMBER 1977, 3-MONTH INTERBANK RATES FELL BY ALMOST

ONE PERCENTAGE POINT.

7. THE SECTION ON FISCAL POLICY STANCE (PARAS. 33FF, ESPECIALLY PARA 35), POINTS UP THE ASTONISHING MISESTIMATE IN 1977 OF GOVERNMENT EXPENDITURES AND REVENUES, ESPECIALLY THE LATTER. GERMAN "DIRECT TAX REVENUE ROSE BY 1 TO 2 PERCENT MORE THAN BUDGETED FOR, IN SPITE OF THE 3 PER CENT LOWER GROWTH OF NOMINAL GNP THAN ASSUMED." AS SHOWN IN THE TABLE ON P. 26, MOST OF THE ERROR IS CONCENTRATED IN NON-WAGE DIRECT TAXES. WAS MOST OF THIS ATTRIBUTABLE TO THE CORPORATE DIVIDEND PAYMENTS NOTED IN PARA 37, OR WERE THERE OTHER SOURCES OF ERROR THE EDRC CAN IDENTIFY?

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 STATE 105919

8. FOOTNOTE 1 TO PARA 41 CALLS "REGAINING HIGH EMPLOYMENT CONDITIONS...THE MOST URGENT POLICY TASK." MANY STATEMENTS BY THE GERMAN GOVERNMENT AND BUNDESBANK IN THE PAST CLEARLY SET PRICE STABILIZATION AT THE TOP OF THE GERMAN POLICY PRIORITY TOTEM, ON THE REASONING THAT PRICE STABILITY IS A PREREQUISITE TO INCREASES IN OUTPUT AND INVESTMENT. THE EDRC MIGHT WANT TO EXPLORE CURRENT GERMAN THINKING ON THIS MATTER AND THEIR OWN VIEW ON THE "TRADE-OFF BETWEEN UNEMPLOYMENT AND PRICE INFLATION."

9. IN PARA 45 WE FIND: "MOST OBSERVERS OF THE GERMAN ECONOMIC SITUATION WOULD PROBABLY AGREE THAT UNDER PRESENT CIRCUMSTANCES THE MOST PROMISING STRATEGY TO BRING ABOUT THE DESIRED RECOVERY OF BUSINESS INVESTMENT WOULD CONSIST OF A COMBINATION OF BOTH HIGHER AGGREGATE DEMAND GROWTH AND LOW COST INCREASES." AN INDISPUTABLE TRUISM WHICH, UNFORTUNATELY FAILS TO RESOLVE THE "PURCHASING POWER" VERSUS "WAGE RESTRAINT" DICHOTOMY IN THE CURRENT POLICY DEBATE ON DESIRABLE SIZE OF WAGE INCREASES. THE SECRETARIAT MIGHT BE ENCOURAGED TO TAKE A CLEARER POSITION ON WHICH OF THESE SCENARIOS IS MORE DESIRABLE. WHILE LAST YEAR'S REPORT BY THE SACHVERSTANDIGENRAT (THAT GNP GROWTH WOULD BE ONE POINT HIGHER ON THE LOW-WAGE COURSE) WAS MET WITH SOME DERISION, WE NOTE THE SECRETARIAT'S OWN MODEL (PARA 44) SUPPORTS THESE RESULTS IN DIRECTION, IF NOT IN AMOUNT.

10. SECRETARIAT MAKES STRONG AND PERSUASIVE POINT IN PARA 52 THAT IN GERMANY HIGH DEFICITS AND LOW INFLATION ARE COMPATIBLE UNDER CURRENT CIRCUMSTANCES. GERMAN SPOKESMEN TEND TO ARGUE RATHER RITUALISTICALLY THAT, EITHER THROUGH REAL OR EXPECTATIONAL CHANNELS, CONTINUING DEFICITS WILL FORCE UP INFLATION AND/OR DEPRESS CONSUMPTION.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 05 STATE 105919

GERMAN DESKS IN USG ARE SKEPTICAL ABOUT THE ANALYTICAL BASIS FOR THESE CLAIMS. GERMAN DELEGATES AT EDRC MIGHT BE CHALLENGED ON THE DETAILED RATIONALE FOR THESE PROFESSIONS.

11. DEBT BURDEN TABLE AT BOTTOM OF PP. 38 SHOWS 1980 DEBT FIGURE AS 33.3 PERCENT OF GNP. ON GNP GROWTH ASSUMPTIONS GIVEN IN SAME FOOTNOTE, PETER STURM MIGHT BE ADVISED THE CORRECT RATIO IS 30.0 PERCENT.

12. IN SECTION ON "SHORT TERM PROSPECTS" (P. 41), SECRETARIAT REVIEWS OUTLOOK FOR BUNDESBANK'S CENTRAL BANK MONEY TARGET, NOTING THAT THE 1978 "TARGET LEVEL WAS ALREADY ATTAINED DURING THE FIRST QUARTER." AS NOTED, DRASTIC ACTIONS WOULD BE REQUIRED TO PREVENT "SOME OVER-SHOOTING" DURING THE REST OF THE YEAR. THERE IS NO REASON

TO BELIEVE THE BUNDESBANK WILL TAKE SUCH ACTIONS. CLEAR IMPLICATION IS THAT THE 1978 OVERSHOOT ON CBM WILL BE FAR HIGHER THAN THE ROUGHLY 1 PERCENTAGE POINT OVERSHOOT IN EACH OF THE THREE YEARS SINCE THE BUNDESBANK FIRST BEGAN TO ANNOUNCE ITS MONETARY TARGETS. IN VIEW OF CENTRAL BANK'S EVIDENT INDULGENCE OF HIGHER THAN DESIRED MONEY SUPPLY GROWTH IN THE PAST AND PROSPECTS FOR A TRULY SPECTACULAR MISS THIS YEAR, TIME MAY BE RIPE TO QUESTION GERMANS ON RATIONALE FOR ANNOUNCING SUCH TARGETS IN ABSENCE OF ANY VISIBLE MOVES TO ENFORCE THEM.

VANCE

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, ANNUAL REPORTS, ECONOMIC PROGRAMS, INTELLIGENCE ASSESSMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE105919
Document Source: CORE
Document Unique ID: 00
Drafter: J WILSON: VS
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780177-0750
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780414/aaaaalos.tel
Line Count: 203
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: efb52fa7-c288-dd11-92da-001cc4696bcc
Office: ORIGIN SS
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 PARIS 12819
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2841487
Secure: OPEN
Status: NATIVE
Subject: EDRC REVIEW OF GERMANY, APRIL 26
TAGS: EGEN, GE, OECD
To: PARIS USOECD
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/efb52fa7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014